

## SUMMARY ANALYSIS OF AMENDED BILL

Author: Hurttt Analyst: Roger Lackey Bill Number: SB 1994  
Related Bills: See Prior Analysis Telephone: 845-3627 Amended Date: 04-14-98  
Attorney: Doug Bramhall Sponsor:

**SUBJECT:** Net Operating Loss Deduction Conformity

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED February 20, 1998, STILL APPLIES.

OTHER - See comments below.

### SUMMARY OF BILL

This bill would conform the California Revenue and Taxation Code to the federal Internal Revenue Code in regard to the treatment of net operating losses (NOLs), excluding the treatment of carrybacks.

### SUMMARY OF AMENDMENT

The April 14, 1998, amendment added language that would exclude carrybacks in regard to the Revenue and Taxation Code's conformity to federal NOLs. The amendment also made technical changes to incorporate other recently enacted laws.

The amendment resolved the department's implementation concern provided in the department's analysis of SB 1994, as introduced February 20, 1998. However, technical concerns provided in that analysis have not been resolved and are restated below.

Except for the disallowance of carrybacks and the new revenue estimate, the department's analysis of SB 1994, as introduced February 20, 1998, still applies.

### Technical Considerations

This bill would apply to the computation of taxes only for taxable and income years beginning on or after January 1, 1998. It is unclear if this bill would allow existing NOLs to extend the carry forward to 20 years as

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
\_\_\_ X \_\_\_ PENDING

Agency Secretary Position:

\_\_\_ S \_\_\_ O  
\_\_\_ SA \_\_\_ OUA  
\_\_\_ N \_\_\_ NP  
\_\_\_ NA \_\_\_ NAR  
DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved \_\_\_  
Position Disapproved \_\_\_  
Position Noted \_\_\_

Department/Legislative Director Date  
**Gerald H. Goldberg** **5/5/98**

Agency Secretary Date

By: Date:

provided by the IRC or would remain at five years as provided by current California law. It is the department's understanding that the author's intent is for the carry forward period for existing NOLs to remain at five years, therefore, Amendments 1 and 2 are provided.

Current law Section 25108(b) contains references to both Sections 24416.1 and 24416.2, both of which would be repealed by this bill. As a result, Section 25108(b) should be amended to strike these two cross-references.

#### Tax Revenue Estimate

Revenue losses from this bill are estimated to be:

NOL Deductions For Years Beginning After December 31, 1998 Assumed Enactment After June 30, 1998 (millions)					
	1998-9	1999-0	2000-1	2001-2	2002-3
Bank & Corporation Tax	(\$2)	(\$30)	(\$57)	(\$77)	(\$97)
Personal Income Tax	-	(\$6)	(\$11)	(\$15)	(\$19)
Total Impact	(\$2)	(\$36)	(\$68)	(\$93)	(\$116)

The above estimate reflects NOLs incurred on or after January 1, 1998, and assumes all NOLs existing before January 1, 1998, would expire as provided by current law.

#### Revenue Discussion

Possible changes in employment, personal income, or gross state product that could result from this measure are not considered.

Revenue losses under the Personal Income and Bank & Corporation Tax laws depend on the amount of positive adjusted gross/state net income that is available for deducting operating losses.

Estimates are based on actual NOL deductions claimed for the 1996 taxable/income year, adjusted to reflect 100% NOL carryovers for operating losses rather than the 50% NOL carryovers generally allowed under current law. These estimates allow for the limited availability of 100% NOL deductions under current law.

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FRANCHISE TAX BOARD'S  
PROPOSED AMENDMENTS TO SB 1994  
As Amended April 14, 1998

AMENDMENT 1

On page 2, between lines 8 and 9, insert"

(c) This act applies only to NOLs arising in taxable years beginning on or after January 1, 1998. The act does not apply to NOLs carried forward from prior taxable years."

AMENDMENT 2

On page 17, between lines 17 and 18, insert"

(c) This act applies only to NOLs arising in income years beginning on or after January 1, 1998. The act does not apply to NOLs carried forward from prior income years."